



SECURITY COUNCIL REPORT, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2013 and 2012

INDEPENDENT AUDITORS' REPORT

Board of Directors
Security Council Report, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Security Council Report, Inc. ("SCR"), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

SCR's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Security Council Report, Inc. as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



New York, New York
August 5, 2014

SECURITY COUNCIL REPORT, INC.

Statements of Financial Position

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 1,101,761	\$ 1,096,577
Grants receivable, net	273,123	767,329
Security deposits	130,744	130,744
Prepaid expenses	<u>19,895</u>	<u>5,999</u>
	<u>\$ 1,525,523</u>	<u>\$ 2,000,649</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 144,743	\$ 102,739
Deferred rent	<u>67,638</u>	<u>74,057</u>
Total liabilities	<u>212,381</u>	<u>176,796</u>
Commitments (Note F)		
Net assets:		
Unrestricted (including cumulative foreign currency losses of (\$10,574) in 2013 and gains of \$9,048 in 2012)	1,000,019	987,387
Temporarily restricted	<u>313,123</u>	<u>836,466</u>
	<u>1,313,142</u>	<u>1,823,853</u>
	<u>\$ 1,525,523</u>	<u>\$ 2,000,649</u>

SECURITY COUNCIL REPORT, INC.

Statements of Activities

	Year Ended December 31,					
	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support:						
Grants and contributions	\$ 1,173,813	\$ 977,513	\$ 2,151,326	\$ 1,393,991	\$ 393,301	\$ 1,787,292
Other income	369		369	247		247
Total revenue and support before release of restrictions	1,174,182	977,513	2,151,695	1,394,238	393,301	1,787,539
Net assets released from restrictions	1,500,856	(1,500,856)	0	1,546,641	(1,546,641)	0
Total revenue and support	2,675,038	(523,343)	2,151,695	2,940,879	(1,153,340)	1,787,539
Expenses:						
Program services	2,303,998		2,303,998	2,438,856		2,438,856
Management and general	258,677		258,677	215,695		215,695
Fund-raising	89,157		89,157	85,904		85,904
Total expenses	2,651,832		2,651,832	2,740,455		2,740,455
Change in net assets before foreign currency translation (losses) gains	23,206	(523,343)	(500,137)	200,424	(1,153,340)	(952,916)
Foreign currency translation (losses) gains	(10,574)		(10,574)	9,048		9,048
Change in net assets	12,632	(523,343)	(510,711)	209,472	(1,153,340)	(943,868)
Net assets - beginning of year	987,387	836,466	1,823,853	777,915	1,989,806	2,767,721
Net assets - end of year	\$ 1,000,019	\$ 313,123	\$ 1,313,142	\$ 987,387	\$ 836,466	\$ 1,823,853

See notes to financial statements

SECURITY COUNCIL REPORT, INC.**Statement of Functional Expenses
Year Ended December 31, 2013**

	Program Services	Management and General	Fund- raising	Total
Salaries and benefits	\$ 1,404,657	\$ 117,721	\$ 58,668	\$ 1,581,046
Occupancy	261,964	20,470	10,545	292,979
Publication design	362,269			362,269
General services		15,905		15,905
Research consultants	17,250	44,655		61,905
Telephone	21,538	2,040	1,051	24,629
Professional fees		41,798	15,069	56,867
Office expenses	22,014	2,046	1,054	25,114
Information technology	53,554	4,185	2,156	59,895
International advisory group	53,012			53,012
Governing board expenses	4,910	614	614	6,138
Travel	42,015			42,015
Outreach	60,815			60,815
Bad debt expense		50		50
Other		9,193		9,193
	<u>\$ 2,303,998</u>	<u>\$ 258,677</u>	<u>\$ 89,157</u>	<u>\$ 2,651,832</u>

SECURITY COUNCIL REPORT, INC.

Statement of Functional Expenses Year Ended December 31, 2012

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- raising</u>	<u>Total</u>
Salaries and benefits	\$ 1,477,615	\$ 95,683	\$ 50,410	\$ 1,623,708
Occupancy	240,066	28,243	14,122	282,431
Publication design	422,646			422,646
General services		18,295		18,295
Moving costs	31,578	4,800		36,378
Research consultants	26,403	3,106	1,553	31,062
Telephone		32,296	15,000	47,296
Professional fees	42,650	5,005	2,502	50,157
Office expenses	30,488	3,587	1,793	35,868
Information technology	64,546			64,546
Governing board expenses	4,103	482	241	4,826
Travel	24,163			24,163
Outreach	69,783			69,783
Postage	4,815	567	283	5,665
Reserve for doubtful accounts		16,113		16,113
Other		7,518		7,518
	<u>\$ 2,438,856</u>	<u>\$ 215,695</u>	<u>\$ 85,904</u>	<u>\$ 2,740,455</u>

SECURITY COUNCIL REPORT, INC.

Statements of Cash Flows

	Year Ended December 31,	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ (510,711)	\$ (943,868)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	50	
Reserve for doubtful accounts		16,113
Foreign currency translation losses (gains)	10,625	(9,048)
Changes in:		
Grants receivable	483,531	1,020,666
Prepaid expense	(13,896)	(5,999)
Accounts payable	42,004	38,272
Deferred rent	(6,419)	(6,419)
Due to/from Columbia University		(100,379)
Net increase in cash and cash equivalents	5,184	9,338
Cash and cash equivalents - beginning of year	<u>1,096,577</u>	<u>1,087,239</u>
Cash and cash equivalents - end of year	<u>\$ 1,101,761</u>	<u>\$ 1,096,577</u>

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2013 and 2012

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

Security Council Report, Inc. ("SCR"), a not-for-profit organization incorporated in New York, was established in 2004 to provide timely, accurate and objective information and analysis on the activities of the United Nations Security Council (the "Security Council"). This information and analysis is provided for the benefit of member states of the United Nations, particularly the ten elected members of the Security Council, but also the wider United Nations membership, the United Nations Secretariat, and the public.

SCR is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and from state and local taxes under comparable laws.

[2] Basis of accounting:

The accompanying financial statements have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, as applicable to not-for-profit organizations.

[3] Functional allocation of expenses:

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services using reasonable ratios determined by management.

[4] Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

[5] Cash and cash equivalents:

For financial reporting purposes, SCR considers cash equivalents to be all highly liquid investments with a maturity of three months or less when purchased.

[6] Fair-value measurement:

SCR reports a fair-value measurement of all applicable financial assets and liabilities.

[7] Net assets:

SCR's net assets, as well as its revenues, expenses, gains and losses, are classified in the financial statements based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets and changes therein are classified and reported as follows:

(i) *Unrestricted:*

Unrestricted net assets represent those resources that are not subject to donor-imposed restrictions.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2013 and 2012

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Net assets: (continued)

(ii) Temporarily restricted:

Temporarily restricted net assets represent those resources that have been restricted by donors for specific purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

[8] Grants:

The operations of SCR are financed principally by foundation grants and contributions received from foreign governments. Grants and contributions received are recorded as unrestricted or temporarily restricted support depending on the existence or absence of any donor restrictions.

[9] Income taxes:

SCR follows the provisions of the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") Topic 740-10-05 relating to accounting and reporting for uncertainty in income taxes. Because of SCR's general tax-exempt status, the adoption of ASC Topic 740-10-05 has not had, and is not expected to have, a material impact on SCR's financial statements. SCR is no longer subject to examination by federal or state tax authorities for year prior to 2010.

[10] Deferred rent:

The difference between rent expense incurred by SCR on an accrual basis and the rent amounts paid in cash, as well as the unamortized portion of rent concessions and landlord contributions to leasehold improvement projects, is reported as deferred rent payable in the accompanying statements of financial position.

[11] Foreign currency translation:

Foreign currency translation gains or losses are the inherent result of the process of translating into U.S. dollars, for financial-reporting purposes, SCR's foreign operations as stated in its respective functional currencies. Such annual translation adjustments are not included in determining the net change in assets from operations, but they are instead disclosed as a separate component in the accompanying statements of activities. Likewise, the cumulative translation gains or losses continue to be reported as an element of unrestricted net assets in the accompanying statements of financial position.

The applicable exchange rates for 2013 were as follows:

1.3776 EUR/USD
1.1123 CHF/USD

[12] Subsequent events:

SCR considers the accounting treatments and the related disclosures in the current year's financial statements that may be required as the result of all events or transactions that occur after the year-end through _____, the date of the independent auditors' report.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2013 and 2012

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[13] Accrued vacation:

SCR's employees are entitled to be paid for unused vacation time if they leave SCR. Accordingly, at each year-end, SCR must recognize a liability for the amount that would be incurred if employees with such unused vacation were to leave. The accrued vacation obligations for 2013 and 2012 were approximately \$69,000 and \$64,000, respectively.

NOTE B - GRANTS AND CONTRIBUTIONS RECEIVABLE

At each year-end, grants and contributions receivable consisted of the following:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Grants receivable due in less than one year	\$ 273,123	\$ 783,442
Allowance for doubtful accounts		<u>(16,113)</u>
	<u>\$ 273,123</u>	<u>\$ 767,329</u>

SCR's grants receivable consisted of grants the amounts of which had not been fully collected as of year-end. For 2013, management considers these receivables to be fully collectible; accordingly, no allowance for doubtful amounts has been established. Grants receivable are from major institutional grantors.

NOTE C - DUE TO/FROM COLUMBIA UNIVERSITY

Pursuant to an original agreement between SCR and Columbia University, Columbia provided office space, personnel and supplies, in return for which SCR reimbursed Columbia and paid a general and administrative fee not to exceed 7% of the overall budget. The general and administrative fee for 2012 was \$7,518. At the end of 2011, Columbia University and SCR terminated the agreement, thus eliminating the provision of support by Columbia.

NOTE D - TEMPORARILY RESTRICTED NET ASSETS

At each year-end, temporarily restricted net assets consisted of the following:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Restricted for future periods	\$ 240,000	\$ 836,466
Restricted for the following purposes:		
What's in Blue	68,123	
Enhancing the implementation of United Nations Sanctions on Iran and DPRK	<u>5,000</u>	
	<u>73,123</u>	
	<u>\$ 313,123</u>	<u>\$ 836,466</u>

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2013 and 2012

NOTE D - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

During each year, net assets released from restrictions resulted from satisfying the following donor restrictions:

	Year Ended December 31,	
	2013	2012
Time restrictions satisfied	<u>\$ 1,056,466</u>	<u>\$ 1,160,206</u>
Restricted for the following purpose:		
Capacity Building Program	155,979	139,550
What's in Blue	193,699	226,885
Empowering developing countries on the United Nations Security Council		20,000
Enhancing the implementation of United Nations Sanctions on Iran and the DPRK	45,000	
Special Research Report	<u>49,712</u>	
	<u>444,390</u>	<u>386,435</u>
	<u>\$ 1,500,856</u>	<u>\$ 1,546,641</u>

NOTE E - RELATED-PARTY TRANSACTIONS

Five members of the SCR Board of Directors in 2013 and three members of the Board in 2012 were also stewards of private foundations and/or foreign governments that are principal contributors of resources to SCR; the total amount contributed was approximately \$1,500,000 and \$1,000,000 for 2013 and 2012, respectively

NOTE F - LEASE COMMITMENT

SCR leases office space for a term that ends in December 2018. Future minimum non-cancelable annual lease payments for this space, excluding escalations for operating expense and real estate tax increases, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 261,861
2015	270,440
2016	270,440
2017	270,440
2018	<u>259,172</u>
Total	<u>\$ 1,332,353</u>

Rent expense for 2013 and 2012 was \$292,978 and \$282,431, respectively.

In 2013 and 2012, SCR maintained the security deposit in a letter of credit that is collateralized by an escrow account held at a financial institution.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2013 and 2012

NOTE G - LINE OF CREDIT

SCR entered into a business line of credit in the amount of \$25,000 with JPMorgan Chase & Co. The line of credit is secured by SCR's assets, and borrowings bear interest at 13.24%. At December 31, 2013 and 2012, there were no outstanding balances due.

NOTE H - RISK CONSIDERATIONS

SCR deposits its cash in one financial institution in amounts which, at times, may exceed federally insured limits. Management believes SCR is not exposed to any significant risk of loss due to the failure of the financial institution.

In addition, as a percentage of its total support each year, SCR received 70% from four grantors in 2013 and 69% from four grantors in 2012.